



King County

2010 BUDGET

Executive Summary

KING COUNTY, WASHINGTON

2010 BUDGET

Executive Summary



King County

Office of King County Executive Kurt Triplet
Office of Management and Budget

September 2009



King County

Kurt Triplett
King County Executive

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King County

Kurt Triplett

King County Executive

September 27, 2009

Honorable King County Councilmembers

And the People of King County:

I am pleased to present the Executive Summary of my proposed 2010 budget of \$4.8 billion for King County to the Metropolitan King County Council as part of a continuing effort to illuminate and provide greater transparency to the budget for our government. This includes a General Fund budget of \$621 million, \$26 million less than the 2009 adopted budget of \$647 million. Detailed budget information continues to be reported in two separate publications: *2010 Executive Proposed Budget* and *2010 Executive Proposed Capital Improvement Program*.

King County's General Fund continues to suffer from the most severe financial crisis in recent memory, resulting from a structural imbalance in the growth rate of revenues, as defined by State law, and pressures on the growth rate of expenditures. The worst economic recession in decades exacerbates this structural problem. For 2010, the King County General Fund faces a \$56.4 million deficit. In addition, virtually every other county fund is in a state of financial distress to one extent or another as a result of many of the similar structural challenges that impact the General Fund and/or the unprecedented downturn in the economy. There has not been a time in recent memory where so many King County funds have experienced such challenges.

To close the \$56.4 million General Fund gap, the *2010 Executive Proposed Budget* identifies and prioritizes reductions in discretionary services in order to preserve funding for mandatory services. It also reflects deep reductions in administrative and overhead costs in order to preserve funding for direct service to the public. And, it makes use of revenue flexibility tools that we received from the Washington State Legislature. Specifically, the proposed General Fund budget for 2010 reflects the following strategies:

- Preserves the Rainy Day Fund and the 6% emergency reserve to protect our AAA credit rating and buffer us from potential disasters such as flooding and pandemic flu
- Captures administrative and overhead savings
- Eliminates General Fund support for discretionary programs such as Parks in urban unincorporated areas, human services, and the subsidy provided to Animal Care and Control
- Utilizes the ability to supplant using Mental Illness and Drug Dependency (MIDD) funds to partially mitigate lost General Fund support for human services and preserve important criminal justice programs that would otherwise be at risk for elimination

- Mitigates additional human services reductions by dedicating additional non-General Funds to human services
- Anticipates savings as a result of the upcoming annexation of the southern portion of the North Highline annexation area into the City of Burien
- Reflects reduced labor costs as a result of a newly renegotiated benefits package that shifts more costs to employees and their dependents while maintaining innovative health care reform programs
- Seeks operational savings as a result of temporary, short-term shutdown of buildings and operations

The decisions required to balance my 2010 proposed budget were not easy. I am well aware of the impact these reductions will have on our communities. However, counties are simply not provided the revenue tools that allow us to sustain these important services.

As painful as these decisions are, we must begin to transform the services we deliver and the manner in which we deliver them to match the resources available to us. But, 2010 is only the beginning of this transformation. Projected deficits of \$54.2 million for 2011 and \$88.2 million for 2012 present additional challenges. As we transition to new executive leadership later this fall, we continue to face an uncertain financial future. My 2010 proposed budget lays the foundation for the county council and the next county Executive to tackle the daunting task of closing the deficits for 2011 and beyond.

As was the case last year, this year's *Executive Summary* provides background on how the structural imbalance in the revenue foundations of counties in this state contributes to King County's current financial crisis. It also describes the impact of the worst economic downturn since the Great Depression has on King County's finances. It then describes in detail the various strategies used to balance the *2010 Executive Proposed Budget* and the challenges that lie ahead for 2011 and beyond. Finally, the *Executive Summary* provides a brief overview of other county funds that are in distress. These funds include: the Department of Development and Environmental Services, Transit, Roads, Solid Waste, Parks, the Real Estate Excise Tax, Wastewater Treatment, Public Health, and Emergency Medical Services.

I ask that the County Council and the citizens of King County use this *Executive Summary* as a valuable resource in understanding the context and major elements of my 2010 proposed budget. I remain steadfast in my commitment to providing essential

services to the citizens of King County, but we must do so within the resources available to us. Again, these are not easy decisions; however, they are decisions we must make as we together fulfill our responsibility to the citizens of this county.

Sincerely,



Kurt Triplett
King County Executive

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BUDGET OVERVIEW



King County

TOTAL 2010 PROPOSED BUDGET (\$4.8 BILLION)

As provided in the state constitution, counties are the agents of the state on the local level, providing many services on behalf of the state. The state authorizes counties to raise taxes and fees to provide these services.

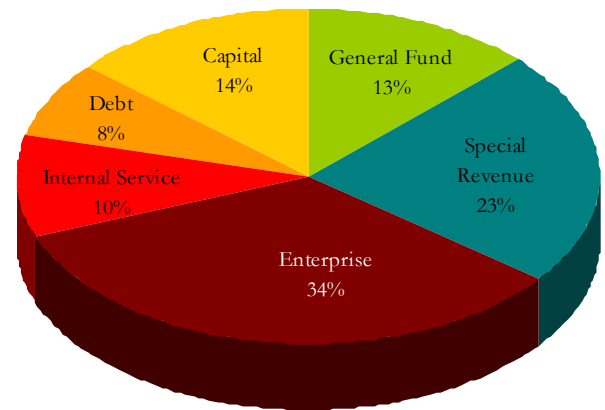
King County is the second largest provider of government services in Washington, with a 2010 proposed budget of approximately \$4.8 billion. With this budget, the county provides a broad range of regional services such as public transportation,

elections, detention, law enforcement, courts, road construction and maintenance, social services, public health, and wastewater treatment to more than 1.9 million residents.

In addition to these regional services, King County also provides local services to approximately 340,000 residents that live in unincorporated areas, of which about 200,000 are in urban unincorporated areas. These local services include code enforcement, sheriff, senior, children and family services.

The General Fund represents only about 13% of King County's total budget, and includes the funds that support the county's criminal justice functions; general government functions such as elections; and contributions to public health.

Non-General Funds, which include enterprise funds (e.g. Wastewater Treatment); Special Revenue Funds (e.g. Roads); and Internal Service Funds (e.g. payroll services) make up the remaining 87% of the King County budget. By state law, non-General Funds may not be used to support General Fund activities.



Figures may not add to 100% due to rounding.

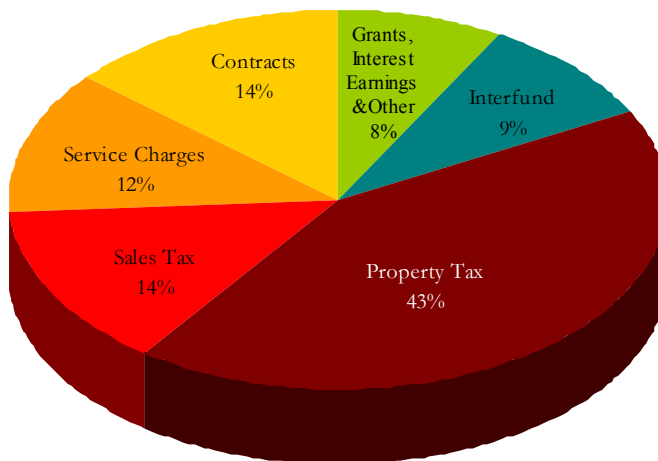
| Budget (in millions) ¹ | 2009 Adopted | 2010 Proposed | +/- |
|-----------------------------------|-----------------|-----------------|---------------|
| General Fund | \$647.2 | \$620.9 | -\$26.3 |
| Special Revenue ² | \$972.6 | \$1096.8 | \$124.3 |
| Enterprise ² | \$1431.1 | \$1616.8 | \$185.7 |
| Internal Service ² | \$429.6 | \$464.2 | \$34.6 |
| Debt Service | \$375.0 | \$370.6 | -\$4.4 |
| Capital ² | \$937.8 | \$653.4 | -\$284.4 |
| TOTAL | \$4793.2 | \$4822.7 | \$29.5 |

¹ Variances may not match due to rounding in all tables.

² These categories include the biennial budget 2010/2011 for the Department of Transportation.

2010 PROJECTED GENERAL FUND REVENUES

In 2010, General Fund revenues are projected to be \$622.6 million. Revenue is driven by two primary sources: the property tax, comprising roughly 43 percent of General Fund revenues; and the sales tax, which makes up about 14 percent of General Fund revenues. The ability to grow these revenues is limited by state law, as explained on page 4. The other 43 percent of the county's revenues come from contracts, fees for service, and interest earnings.



2010 General Fund by the Numbers:

\$56.4 million

2010 Projected General Fund Deficit

\$7.4 million

Administrative and Overhead Reductions

\$15.0 million

Cuts to Discretionary Services

\$6.5 million

Savings from Operational Shutdown

\$7.7 million

Supplanted MIDD funding to preserve criminal justice programs

\$2.9 million

Annexation Savings

\$2.8 million

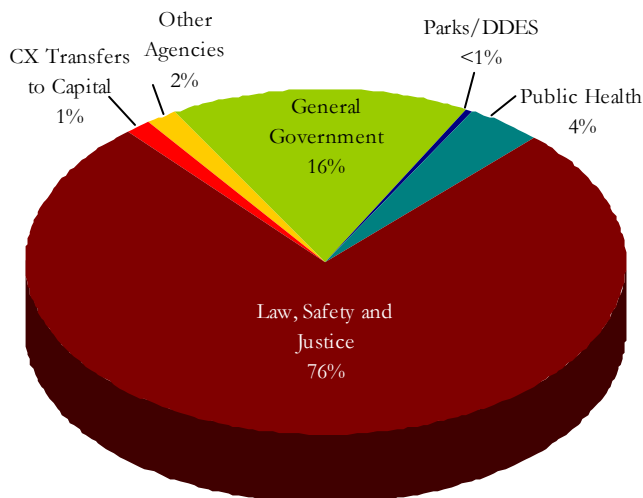
Savings from New Employee Benefits Package

\$14.1 million

Other

2010 PROJECTED GENERAL FUND EXPENDITURES

King County's largest General Fund expenditure is for law, safety and justice programs. This includes the sheriff, district and superior courts, the prosecutor and public defender, and adult and juvenile detention (jails). Expenditures on these programs now make up 76% of the General Fund, up from 73% in 2009 and 71% in 2008, underscoring the Executive's commitment to law, safety and justice even in times of severe fiscal distress.



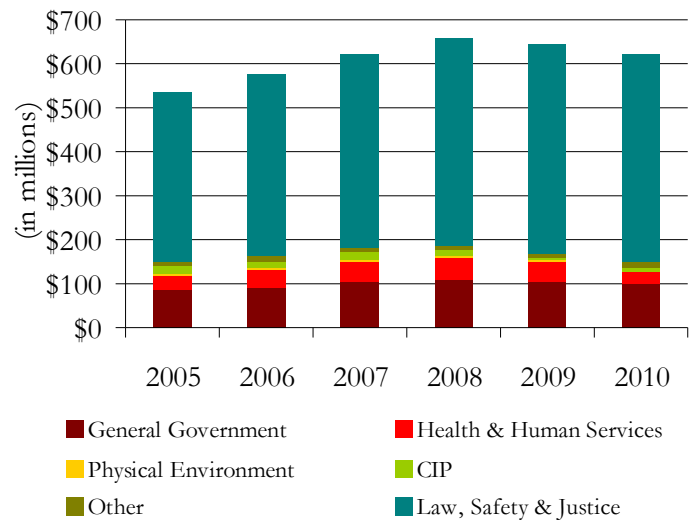
The second largest allocation is for general government operations, including elections and government administration.

Finally, the General Fund contribution to public health programs is \$26.5 million, which represents 4 percent of 2010 General Fund expenditures.

HISTORICAL GENERAL FUND EXPENDITURES & REDUCTIONS BY PROGRAM AREA

The 2010 Executive Proposed Budget for the General Fund is \$620.9 million, approximately \$26 million less than the 2009 adopted budget. This marks the second consecutive year that the General Fund budget is less than the previous year.

All major program areas will see decreased funding in 2010: physical environment - down 40 percent; health and human services - down 37 percent; general government - down 7 percent; law, safety and justice - down 1 percent. Reflecting the Executive's commitment to protecting the safety of the community, the law, safety and justice program is seeing the smallest decrease in funding of all program areas. For details on all these reductions, please see pages 9-16.



Total General Fund expenditures have been less than the previous year adopted budget in both 2009 and 2010:

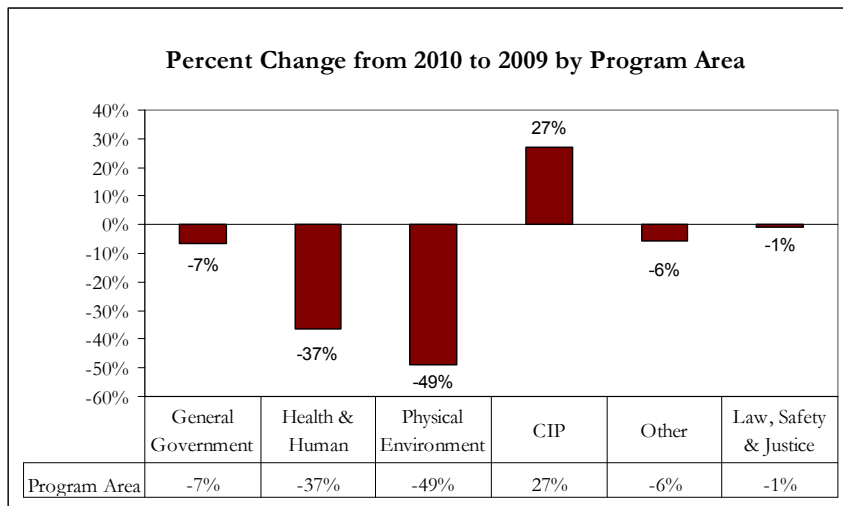
2008: \$659.7

2009: \$647.2

2010: \$620.9

| Budget (in millions) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 10-09 | +/- % |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|
| General Government | 84.3 | 89.7 | 102.4 | 110.0 | 106.7 | 99.7 | (7.0) | -7% |
| Health & Human Services | 34.0 | 41.4 | 45.5 | 48.9 | 41.9 | 26.5 | (15.4) | -37% |
| Physical Environment | 5.8 | 6.1 | 7.0 | 6.3 | 4.5 | 2.3 | (2.2) | -49% |
| CIP | 17.3 | 14.0 | 15.9 | 12.1 | 6.9 | 8.8 | 1.9 | 27% |
| Other | 10.7 | 12.3 | 10.2 | 10.9 | 9.0 | 8.5 | (0.5) | -6% |
| Law, Safety & Justice | 385.9 | 415.4 | 442.0 | 471.5 | 478.2 | 475.1 | (3.1) | -1% |
| TOTAL¹ | 538.0 | 579.0 | 623.0 | 659.7 | 647.2 | 620.9 | -26.3 | -4% |

¹ Totals may not match with individual tables due to rounding. Underexpenditure is embedded in Other category.



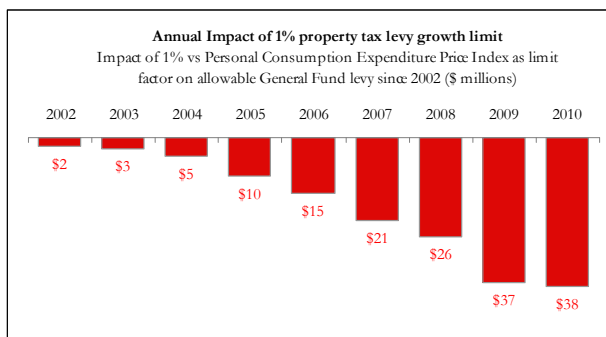
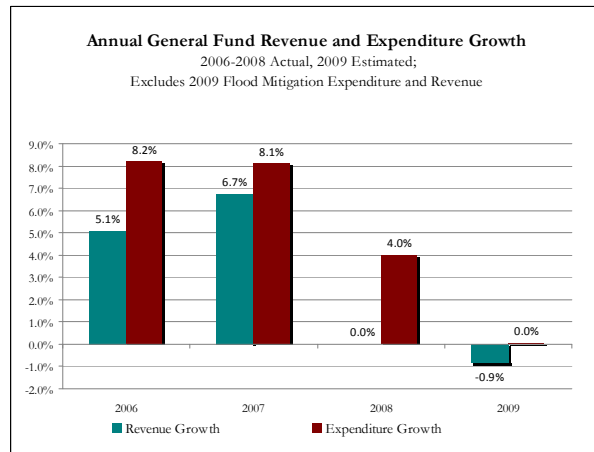
Note: Capital Improvement Projects (CIP) includes an increase in major maintenance, technology projects, and a decrease in general facilities projects for a net increase of \$1.9 M over 2009.



STRUCTURAL DEFICITS

King County's General Fund has two main revenue sources as established by state law, the property tax and sales tax. Together, they make up approximately 57 percent of General Fund revenues in 2010. King County has been experiencing a structural imbalance between revenue and expenditure growth from these sources for nearly ten years. This imbalance is driven by:

- State law that caps property tax growth at 1% plus new construction;
- An urban subsidy: it costs more to provide services in urban unincorporated areas than tax revenue generated in these areas. Cities have B&O and utility taxes to help fund these urban services in incorporated areas;
- Heavy reliance on sales tax, which is subject to volatility during economic cycles.



This graph shows the additional General Fund revenue generated if property tax growth was tied to the Personal Consumption Expenditure Price Index as opposed to being capped at 1% (by current law). In 2010, King County would have an additional \$38 million in

In response to structural deficits, King County closed \$137 million in deficits between 2002 and 2005 and built General Fund reserves totaling \$115 million. Measures to close the deficits included efficiencies such as consolidating executive departments from fourteen to seven, and innovative structural changes such as developing a parks business plan which provided opportunity for private sector investment in parks and the approval of a property tax levy for regional and rural parks.

Economic expansion from 2006-2008 brought a brief respite from General Fund deficits, but the structural imbalance remained. The \$115 million reserves were spent down over three years as King County invested in critical services, such that by the fall of 2008, a budget deficit of \$24.7 million was projected for 2009. By 2009, reserves were significantly depleted and sales and property tax receipts plummeted as the economy began a downturn that would lead to the worst recession since the Great Depression. The result was an unprecedented \$93.4 million projected deficit. See the *2009 In Review* section for a discussion on how King County closed this gap.

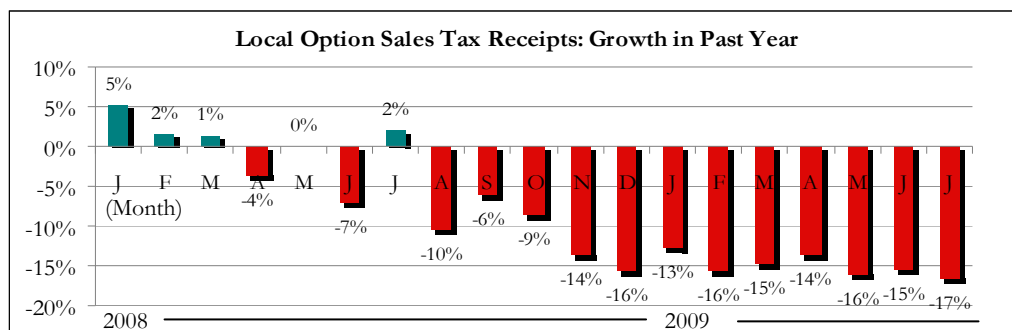
“The County has an antiquated revenue structure, strictly defined by state law and recent voter initiatives, which has not kept pace with evolving service responsibilities.”

Budget Advisory
Task Force Executive
Summary
June 2003

ECONOMIC DECLINE IN 2009 AND 2010

King County's structural financial challenges are exacerbated by the recent turbulent economic conditions. Beginning with the initial collapse of the financial markets in late 2007, the worst economic downturn since the Great Depression has left an unprecedented mark on the financial health of King County.

Local option sales tax receipts in 2008 were 4.6 percent lower than 2007. Collections for each month between August 2008 and July 2009 have been lower than the same month a year earlier, by an average of 13.1 percent. A decline of 10.1 percent is anticipated for 2009. Similar declines are anticipated for the criminal justice sales tax, which is received by the General Fund.

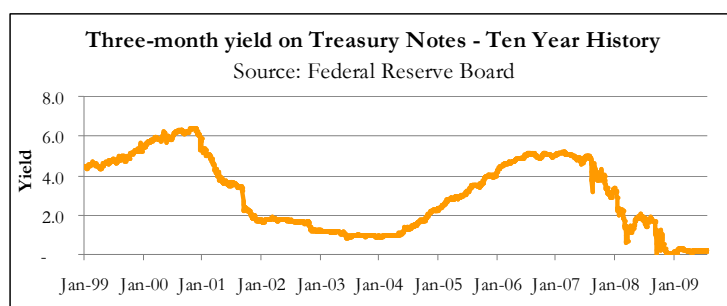


"It now seems very likely that the recession ended in the third quarter of 2009. That only means that economic activity has stopped declining. It does not mean that good times are back."

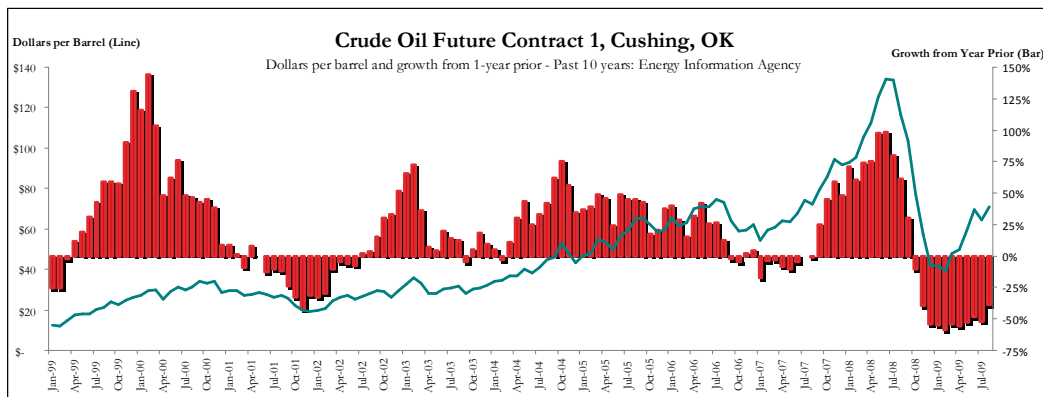
-Washington State
Economic and
Revenue Forecast
Council
September 17, 2009

Yields on the King County Investment Pool are at historic lows. Plummeting to an estimated 1.7% yield in 2009 from over 5.0% as recently as 2007, the county's return on idle cash is reflective of unprecedented low yields in the bond and federal agency market. These low yields are expected to continue with a 2010 estimated return of 1.4%. In combination with lowered cash balances and impaired investments, this has resulted in the General Fund receiving less than \$2.8 million in interest earnings for 2009, compared with more than \$7.0 million in 2008 and \$13.4 million in 2007. For 2010, as yields are projected to drop even further, only \$1.9 million in earnings are anticipated.

Inflation, while volatile in 2008 and into 2009, has begun to settle at relatively benign levels. Spikes in energy prices in the fall of 2008 drove up the Consumer Price Index (CPI) significantly resulting in a 2009 Cost of Living Adjustment (COLA) of 4.88%. Sufficient resource slack should ensure that inflation remains tame in the near term. For 2010, the pertinent growth in the CPI is forecast to be negative, with a resulting 2010 COLA of 2.0% (the floor for most county labor contracts).



The real estate market has likely hit bottom, although ripple effects of the recent crash are still being felt. Transaction volume has fallen by nearly 60 percent from 2007 levels, and construction employment during the first half of 2009 is 16 percent below 2008 levels during the same period. Many of these jobs will not be quick to return. This has resulted in declines in Real Estate Excise Taxes (REET) and in new construction values being added to the property tax rolls.



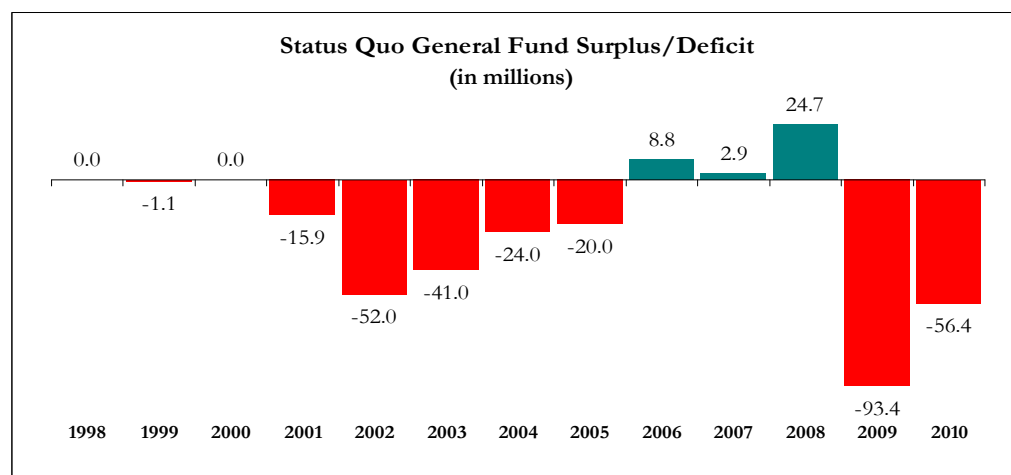
REET revenue is anticipated to total \$6.3 million in 2009, down 35.9% from 2008. Revenue is expected to grow by 6.1% in 2010 to \$6.7 million. New construction added to the tax rolls for 2009 is estimated to contribute growth of 1.62% to the countywide property tax levy limit, in addition to the standard 1.0% growth allowed under state law. Low new construction results in extremely low growth in levy lids. Revaluations are expected to be down for 2010 tax values as well, resulting in part from a change in methodology used by the Office of the Assessor to capture impacts of a severely distressed market. Low new construction and declining assessed value puts pressure on some levies that might be near their rate cap. While the General Fund is not anticipated to face a rate cap, the Emergency Medical Services (EMS) levy is likely to be restricted by its \$0.30 cap, and unable to collect the typical 1% plus new construction increase in revenue.

“Simply put, without new revenue, within two years King County will no longer be able to meet its mandates to keep King County residents healthy and safe.”

-Executive Triplett
Proposed Ballot Measure
Transmittal Letter
July 2009

STATUS QUO BUDGET DEFICIT/SURPLUS

The period of structural deficits began in 2001 following the imposition of severe legal limits on property tax growth rates. Economic cycles allow for temporary reprieves from drastic budget cuts, but as demonstrated in the deficit history below, even a few years of surpluses experienced at the peak of an economic cycle (most recently in 2006-2008) do not offset the magnitude of cuts required in deficit years. King County and other counties around the state have had to redefine the role of county governments in light of this structural problem, a problem that has no end in sight.



2009 IN REVIEW



King County

“Last fall, in an effort to fix the structural gap from state legislature, I met personally with over 30 state legislators from King County to discuss the structural funding problem and the need for a revenue and flexibility tool kit. In the end, we got very close.”

-Executive Triplett
Proposed Ballot
Measure Transmittal
Letter
July 2009

The 2009 Adopted Budget closed the largest General Fund deficit – \$93.4 million – in the history of King County. This deficit was the result of on-going structural imbalances in the growth rates of the county’s two main revenue sources, property tax and sales tax, expenditure pressures on the cost of delivering existing services as well as devastating impacts of the severe economic downturn.

The 2009 Adopted Budget closed the \$93.4 million deficit in the following ways:

- Savings from efficiencies, on-going reductions, and revenue increases;
- Administrative and overhead reductions;
- Operational savings through implementation of a ten-day furlough program;
- Savings from programs placed in a six-month ‘lifeboat’, the funding for which would end effective July 1, 2009 if the state legislature failed to provide King County with sufficient revenue tools to address the underlying structural deficit;
- Select use of one-time reserves.

The Executive has been actively engaged in seeking solutions to King County’s underlying financial challenges, recognizing his paramount responsibility to produce a balanced budget and acknowledging that without these solutions, the county will have to make painful decisions to eliminate funding for programs important to maintaining King County’s quality of life – particularly for King County’s most vulnerable citizens.

2009 LEGISLATIVE SESSION

In 2008 and 2009, King County identified key state legislative changes to address the structural flaws in the revenue tools provided by the state to counties for delivering basic services. These changes included a utility tax; the ability to impose the public safety sales tax through councilmanic action; the ability to use special taxing authorities such as the mental illness and drug dependency (MIDD) and the public safety sales taxes to support existing services as well as expanded and enhanced services. This package would have been sufficient to sustain county services, including those in the lifeboat, for a period of time.

Although the county came short of obtaining most of these revenue tools, King County was successful in securing the ability to use revenues from special taxing authorities, such as the MIDD and the public safety sales taxes, to support existing services on a limited, short-term basis. Specifically, the state legislature granted King County the authority to supplant up to 50 percent of MIDD revenues in 2010 to support existing mental illness and drug dependency programs. This authority decreases by 10 percent each year until it reaches zero in 2015. For 2010, 50 percent supplantation is equivalent to \$21.6 million as compared to a General Fund deficit of \$56.4 million. While the supplantation authority helps alleviate a portion of the General Fund structural challenges, this temporary solution is not sufficient to address the deep underlying problems that are resulting in deficits year after year.

THE LIFEBOAT STRATEGY

In recognition that King County must make every effort to preserve programs that provide direct services to citizens, the 2009 budget placed approximately \$7.4 million of programs in a 'lifeboat' for six months – including \$3.4 million of unfunded mandates. For the first six months of 2009, these programs were supported with one-time reserves, allowing the county time to work with the Washington State Legislature to craft a solution that would provide all counties across the state flexibility and revenue tools to sustain these important services over the long term. While King County had some limited successes with the state legislature, these successes were not sufficient to address the underlying structural challenges and preserve programs in the lifeboat.

King County is legally obligated to deliver unfunded mandate services. As such, most county agencies found ways to continue providing these unfunded mandates in the lifeboat for the second half of 2009 within existing resources – primarily at the expense of other services. The one exception was Superior Court who required a supplemental appropriation of nearly \$215,000. Funding for all of the unfunded mandates is restored in the 2010 Executive Proposed Budget.

Two months of additional funding was provided to Parks to keep the Evergreen Pool open through the summer and to allow time to find opportunities to transfer this asset to other community organizations. Viable transfer opportunities have not materialized. As such, the pool is now shuttered.

The King County Executive also identified one-time funding to sustain approximately \$1.7 million in human services programs for the balance of 2009 to allow time for King County to consider dedicated funding options in the form of either a sales tax or property tax.

Funding for all remaining programs in the lifeboat ended on July 1, 2009.

PROPOSED TAX INCREASES/ BALLOT MEASURES

With the failure of the state legislature to adequately address the structural underpinnings of counties' on-going deficits, the King County Executive recognizes the General Fund will face large deficits for the foreseeable future. The Executive also recognizes that after closing \$137 million of budget gaps between 2002 and 2005 and the \$93 million deficit for 2009, opportunities to reduce costs without directly impacting services provided – including criminal justice, health and human services programs – to the residents of King County is now impossible. With this in mind, in July, the Executive submitted a proposal to the King County Council to raise the sales tax by one-tenth of one cent to support critical criminal justice, health and human services that would otherwise be in jeopardy. This tax would have raised \$17.8 million for 2010. The Executive also supported a companion piece of legislation that would raise the property tax to support many of the same programs. The King County Council chose not to put either of these measures before the voters of King County this November, closing any remaining opportunity to identify funding to sustain these important services. As a result, King County must now look at cutting in 2010 and beyond, the very programs that these tax increases would have saved.

“After three years of major cuts, I have no options other than devastating cuts that will profoundly change services to the people of this county. My budget will be what the county can afford.

The question to the council and voters will be ‘Is this the county you want?’”

-Executive Triplett
June 2009

BALANCING IN 2010



King County

The King County General Fund faces a \$56.4 million deficit for 2010, caused by the on-going structural imbalance between the growth rates of revenues and expenditures and made worse by the most severe economic instability since the Great Depression. King County's General Fund is already lean following the deficit years of 2002 through 2005 when the county closed a \$137 million budget gap and recent actions to eliminate the 2009 \$93 million deficit. 2010 marks the second consecutive year that the General Fund budget is less than the previous year. As a result, King County is left with difficult and painful decisions about which programs to reduce or eliminate. Simply put, there are no easy choices.

In 2009, King County's General Fund supported critical community services including:

- Elections,
- Criminal justice functions,
- Public health functions, including resources to prepare King County to respond to the rising threat of communicable diseases such as the H1N1 influenza, and
- Human services for the county's most vulnerable citizens.

The Executive's criteria for balancing the 2010 budget includes preserving funding for core mandatory services and prioritizes direct services over administrative overhead costs. The Executive also emphasizes the elimination of programs over 'across the board' reductions, recognizing that county programs can no longer be effective if faced with reductions on the margins. Finally, the Executive makes use of the tools provided to King County by the state legislature in 2009, namely the ability to use MIDD revenue to support existing General Fund programs, to mitigate and offset some direct service reductions.

The 2010 Executive Proposed Budget that results from this framework includes:

- **Administrative and overhead function reductions** to preserve direct services;
- **Annexation savings** from the recently approved annexation of the southern portion of the North Highline Potential Annexation Area into the City of Burien is captured in order to reduce the ongoing urban subsidy;
- **Using MIDD** to restore human services funding and to avoid cuts to criminal justice agencies;
- **Eliminating funding for discretionary programs**, such as parks, human services, and animal care and control – in many cases in its entirety – in order to preserve mandatory functions such as criminal justice;
- **A New Benefits Package** reduces the growth rate of labor costs by shifting more costs to employees and their dependents; and
- **Operational shutdown savings** will be identified through discussions with King County's labor unions.

CLOSING THE \$56.4 MILLION GENERAL FUND DEFICIT

| Cumulative Changes to Address Projected 2010 Deficit Based on Final Projected 2010 Deficit | Impact on Deficit | |
|---|------------------------|------------------------|
| | Increase to Deficit | Decrease to Deficit |
| Projected Deficit (dollars in millions) | 56.4 | |
| Administrative and Overhead Reductions | | |
| Administrative Service Reductions | | 4.1 |
| Central Rate Reductions | | 3.3 |
| Discretionary Program Funding | | |
| Eliminate Parks Funding ¹ | | 2.1 |
| Eliminate Animal Control Subsidy | | 1.5 |
| Eliminate Human Services Funding ² | | 11.4 |
| Funding Shift to MIDD | | |
| MIDD Supplantation for LSJ Programs ³ | | 7.7 |
| Other Balancing Strategies | | |
| North Highline Annexation Savings | | 2.9 |
| Employee Flex Benefit Program Change | | 2.8 |
| Shut Down of Operations | | 6.5 |
| Technical Adjustments and Other Changes | | |
| PERS Savings | | 6.4 |
| Other Changes | | 8.1 |
| Changes to Reserves | | |
| Release of Parks Reserve ¹ | | 2.5 |
| Establish Animal Control Reserve | 3.0 | |
| Establish Parks Partnership Reserve | 0.5 | |
| Establish Alder Facility Reserve | 4.0 | |
| Establish Green River Flood Planning Reserve | 1.0 | |
| Establish Retirement Contribution Stabilization Reserve | 6.4 | |
| Other Misc. Reserves | | 12.0 |
| Subtotals | 71.3 | 71.3 |
| Net Projected 2010 Deficit | | 0.0 |

¹ - Total General Fund savings from Parks is \$4.6 million, the sum of 2010 operating costs and release of the Parks reserve.

² - Nearly \$5.0 million of this reduction is mitigated using supplanted MIDD dollars. An additional \$2.7 million is offset by reallocating non-General Fund revenue in the Children and Family Services fund.

³ - The 2010 Executive Proposed Budget relies on \$12.6 million in MIDD supplantation dollars, \$7.7 million to preserve criminal justice services and just under \$5.0 million to mitigate lost General Fund support to human services.

“These proposed cuts will be difficult, but by making tough choices, they can be achieved. We must all be willing to lead by example as deep cuts are taken countywide.”

- Executive Triplett
August 2009

ADMINISTRATIVE AND OVERHEAD REDUCTIONS

In response to the severe constraints facing the General Fund, as well as virtually every other county fund, the 2010 Executive Proposed Budget assumes \$11.4 million in expenditure reductions and revenue increases for administrative and overhead functions, including \$4.1 million net reductions to the General Fund. These efforts underscore the Executive's commitment to seeking administrative efficiencies prior to the elimination of discretionary services and in order to preserve funding for mandatory and direct services to the residents of King County.

The proposed budget assumes deep reductions totaling \$1.9 million, or 13.6 percent from the status quo budget projections, to the General Fund supported county executive offices, including the County Executive; the Office of the Executive; the Office of Management and Budget; and the Office of Strategic Planning and Performance Management. The Office of Information Resource Management, which is an internal service fund, is reduced by 10 percent. These reductions will result in the elimination of 11 FTEs and 5 term-limited temporary positions. In addition, the Executive Fellow program will be eliminated.

The proposed budget is also balanced assuming 10 percent reductions to legislative branch agencies that are roughly commensurate with the reductions taken in the executive offices. This will generate \$2.2 million in savings.

Additionally, central service agencies that provide services to other county agencies under cost recovery models have identified efficiencies and reductions that will result in reduced charges for the General Fund agencies. For example, charges to law, safety and justice agencies are reduced by \$3.6 million. The reconfiguring of the employee training program and currently provided by the Human Resources Division (HRD) is an example of a reduction in central service agencies that will result in lower charges for services to county agencies. Under this proposal, HRD will eliminate the Training and Organizational Development program and create a pared down semi-annual supervisory education program in its place. This change lowers HRD's costs by \$690,442.

ANNEXATIONS

King County is the local service provider for urban unincorporated areas of King County. The cost to the General Fund in 2010 of providing these local services exceeds revenues generated by these areas by \$15.8 million, thereby requiring the diversion of regional revenues to support local services. To address the underlying structural nature of the General Fund deficits, King County has placed a priority in seeking the annexation or incorporation of these areas.

The 2010 Executive Proposed Budget reflects \$2.9 million in net savings to the General Fund as a result of the anticipated March 2, 2010 annexation of the southern portion of the North Highline annexation area into the City of Burien, in keeping with the outcome of the August 2009 primary election.

Even with this successful transition, only nineteen percent of the population in the Potential Annexation Areas has been annexed.

USING MIDD TO PRESERVE CRIMINAL JUSTICE

The Mental Illness and Drug Dependency (MIDD) sales tax is central to the Executive's strategy for balancing the 2010 General Fund budget and preserving critical human services and criminal justice programs. The original state legislation that enabled the county to collect a one-tenth of a cent sales tax for MIDD restricted these funds for *only new or enhanced* mental illness and drug dependency programs and services. However, in 2009, the state legislature amended the legislation to allow counties to use up to fifty percent of MIDD revenues in 2010 to fund existing mental health and chemical dependency services and therapeutic courts. The fifty percent supplantation level will decline by 10 percent annually until it reaches zero in 2015. This is a short term solution to an ongoing problem and as the ability to supplant ramps down, the county will again have to make difficult decisions about what programs remain.

The County Executive, in order to maintain the integrity of the MIDD Plan, recommends that only 30 percent of MIDD funds be supplanted in 2010. Legislation also restricts supplanted sales tax revenue to support therapeutic court programs, mental health programs, or chemical dependency programs. The General Fund supported programs that qualify for MIDD funds total \$12.6 million, close to 30 percent supplantation. Because there are not additional programs in the General Fund that would qualify for MIDD funding under state law, supplanting up to 50 percent to relieve additional pressure on the General Fund in 2010 is virtually impossible. Finally, by supplanting only 30 percent of MIDD revenues in 2010 - 2012, the 2010 Executive Proposed Budget establishes a three year strategy to sustain these core existing services and will ease the impact when MIDD supplantation ramps down in 2013.

"The MIDD flexibility is an invaluable tool, but it is not a long term fix."

- Executive Triplett
September 2009

| Supplantation Programs (MIDD supported programs in 2010) | | |
|--|----|---------------------|
| Adult Drug Court | \$ | 2,691,000 |
| Family Treatment Court | \$ | 201,000 |
| Juvenile Drug Court | \$ | 179,000 |
| Mental Health Court (includes contribution from DCHS) | \$ | 1,218,000 |
| DAJD Mental Health Contracts | \$ | 406,000 |
| Jail Health Mental Health Treatment | \$ | 3,107,000 |
| DCHS Mental Health & Substance Abuse Programs | \$ | 4,806,000 |
| | \$ | 12,608,000 |
| MIDD Programs Being Delayed or Reduced | | |
| Community Based Care | \$ | (1,935,000) |
| Programs Targeted to Help Youth | \$ | (4,102,000) |
| Jail and Hospital Diversion Programs | \$ | (2,189,000) |
| Domestic Violence, Sexual Assault, and Drug Diversion Court Programs | \$ | (360,000) |
| Transfer from Fund Balance | \$ | (4,022,000) |
| | \$ | (12,608,000) |

The MIDD program for 2010 reflects base programmatic deferrals of \$8.6 million and requires the drawdown of \$21.2 million in fund balance over three years, \$9.7 million of which is used in 2010. These changes are required to support supplantation and to account for projected declines in sales tax receipts. While reducing funding for MIDD strategies is difficult, this funding tool allows core substance abuse and chemical dependency treatment programs in King County to continue, despite the elimination of General Fund support. MIDD funds will be used to support \$4.9 million formerly General Fund supported human services programs and an additional \$7.7 million in criminal justice programs.

ELIMINATING DISCRETIONARY SERVICES

The 2010 Executive Proposed Budget prioritizes mandated services above discretionary services. While many programs contribute to King County's well-being and quality of life, some functions are mandated by state and federal law. When faced with severely limited resources, this results in the need to eliminate General Fund support for discretionary services, including urban unincorporated parks, animal care and control, and human services. Where possible, the 2010 Executive Proposed Budget seeks options for mitigating the impact of the lost General Fund support for these important programs.

Reserves Established to Support Transition of Services (in millions)

| | |
|--------------------------|--------------|
| Parks Partnership | \$0.5 |
| Animal Control | \$3.0 |
| Alder Facility | \$4.0 |

Reserves Established to Mitigate Known Obligations

| | |
|--|--------------|
| Green River Flood | \$1.0 |
| Retirement Rate Stabilization | \$6.7 |

Urban Unincorporated Parks

Relying on financial support from the General Fund, King County maintains and operates 39 local parks (including two outdoor pools) throughout urban unincorporated King County. This funding augments Parks levy dollars, which may only be used to support regional and rural park facilities. The 2009 Adopted Budget assumed the continuation of General Fund support for urban parks through 2011 to allow time for King County to work with cities and community organizations to transfer these assets. However, given the magnitude of the General Fund challenges for 2010, the 2010 Executive Proposed Budget accelerates the termination of General Fund support for the 39 urban parks to the end of 2009. As a result, effective January 1, 2010, the parks will be mothballed. This will save \$2.1 million in operating costs in 2010 and allow for the release of the \$2.5 million reserve that had been allocated to support parks operating costs for 2011.

King County is making every effort to continue working with community partners to develop viable options for transferring these important assets. To demonstrate this commitment, King County is allocating \$500,000 in one-time money in a reserve to facilitate the transfer of these parks to external entities. In addition, King County will keep open for two months the six park facilities that are located in the southern portion of the North Highline annexation area pending its formal annexation into the City of Burien in March 2010.

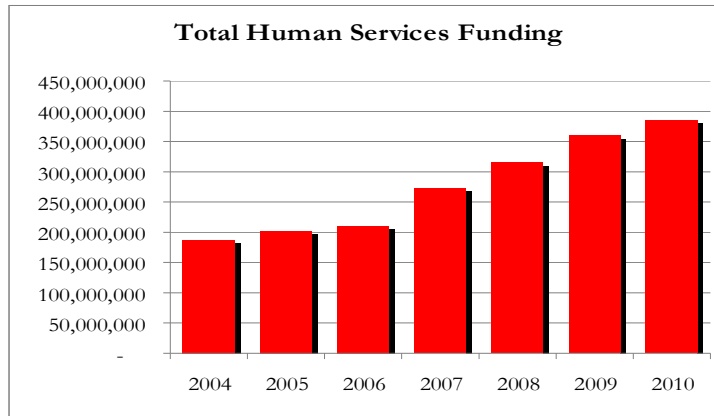
Animal Care and Control

The 2010 Executive Proposed Budget eliminates the \$1.5 million General Fund subsidy historically provided to King County Animal Care and Control to offset the shortfall from animal licensing fees in unincorporated King County and its contracting cities. The combination of the financial challenges in the General Fund and the fact that Animal Care and Control is not self-sustaining means that King County is no longer able to continue providing animal care and control services as it has in the past. Animal Care and Control's operational challenges are also exacerbated by the potential flooding of the Green River Valley that may result from the faulty federally-operated Howard Hanson Dam. The animal shelter is located in the flood plain and has been deemed a total loss in the event of a flood. To mitigate the budget shortfall and the risk posed by the Green River flood emergency, King County Animal Care and Control is partnering with its contract cities and community organizations to transition to an alternate, fiscally sustainable business model by June 2010. Reinforcing this commitment, the 2010 Executive Proposed Budget allocates \$3 million in one-time money in a reserve to facilitate the transition of this function.

Human Services

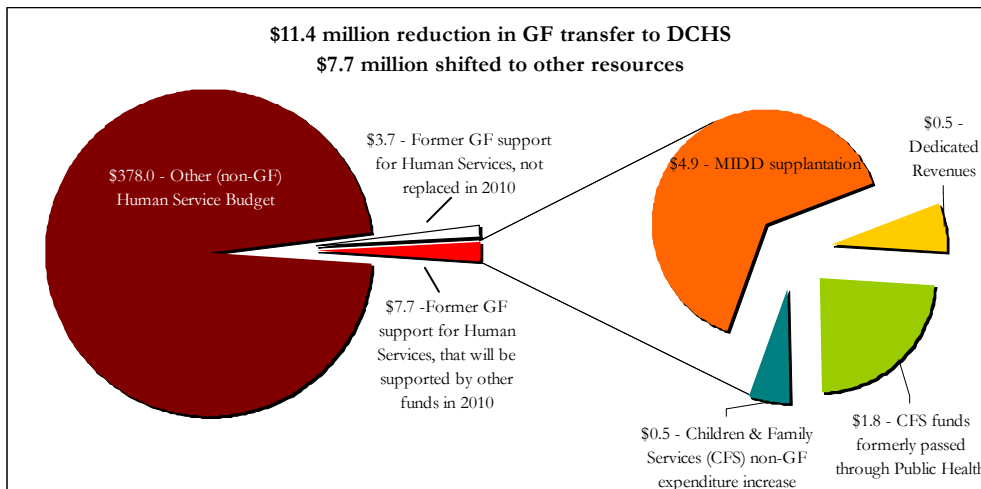
The 2010 Executive Proposed Budget eliminates General Fund support for human services, resulting in \$11.4 million in savings. This leaves the Department of Community and Human Services (DCHS) with \$385.7 million (excluding the Office of the Public Defender) in non-General Funds to support human services in 2010.

The \$11.4 million in General Funds, which represents less than 3 percent of DCHS funding, was formerly allocated to support mental health and substance abuse programs, as well as a wide variety of programs in the Children and Family Services (CFS) fund. Demonstrating the Executive's commitment to these important human services programs, alternate funding sources have been identified to partially mitigate the loss of these General Fund dollars. Virtually all of the funding previously provided to mental health and substance abuse programs, totaling close to \$4.9 million, will receive supplanted funds from the Mental Illness and Drug Dependency fund (orange section below). In addition, all remaining non-General Fund dollars in the CFS fund are being allocated to DCHS – previously some money was allocated to Public Health (light green section). The combination of MIDD dollars and the dedication of the non-General Fund portion of CFS funds to DCHS means that the net impact of the General Fund reductions to DCHS have been held to \$3.7 million.



“Authorizing these reductions was one of the most difficult decisions I made as Executive. But while these services are essential, they are not mandated. And counties simply don’t have the revenue tools to fund them.”

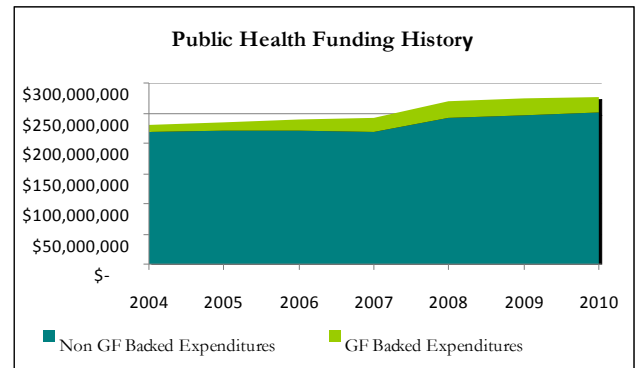
-Executive Triplett
September 2009



As a result of these reallocations, DCHS will be able to continue providing critical mental health and chemical dependency services and partially sustain a number of important human services activities, including housing programs, community services contracts, and work training initiatives.

PRESERVING GENERAL FUND SUPPORT FOR PUBLIC HEALTH

The 2010 Executive Proposed Budget includes only modest General Fund reductions to Public Health, demonstrating the county's continued commitment to a robust Public Health system. In 2009, Public Health received \$30 million in General Fund support. This level drops to \$26.5 million for 2010.



To meet these reductions, Public Health has identified some innovative approaches to its public health clinic operations that largely preserve the delivery of health care services to communities in need. Faced with the prospect of closing clinics in 2010, Public Health has entered into a partnership with a community health provider, Health Point, whereby Health Point will lease Public Health's Northshore facility and move its operations, including the provision of primary care services, into the building. Public Health will rent back a portion of the space at a lower operating cost to continue delivery office-based Maternity Support Services and Women, Infant and Children services at the site.

Public Health is also consolidating services in order to create efficiencies and reduce costs. The Alder Square Clinic will close and some of the family planning services that had been provided at this site will move to the Birch Creek Clinic. Meanwhile, Public Health is looking to close the Kent Teen Clinic and is looking to a new site to consolidate services in the south end.

AND CRIMINAL JUSTICE SERVICES

Criminal justice services continue to be a top priority for King County government, reflected in increase in criminal justice program's share of the General Fund from 73 percent in the 2009 Adopted Budget to 76 percent in the 2010 Executive Proposed Budget.

For the most part, criminal justice agencies were spared the deep reductions seen in other General Fund-dependent functions. Collectively, these budgets are reduced by less than one percent from the 2009 adopted budget. The 2010 Executive Proposed Budget achieves this by eliminating General Fund support for discretionary services such as parks and human services and by shifting \$7.7 million in criminal justice services, such as drug court and mental health court, from the General Fund to MIDD funding.

As the percentage share of General Fund dollars shifts increasingly toward criminal justice functions and as discretionary programs in the General Fund are eliminated, criminal justice functions will necessarily have to seek efficiencies and costs savings in the years to come as the General Fund continues to face the daunting task of closing the projected deficits. This is particularly the case as the availability of MIDD funds to support existing criminal justice programs ramps down starting in 2013.

NEW BENEFITS PACKAGE

2010 will be the first year of a new three-year benefits package for King County employees. Changes to the package contain cost growth by shifting a greater portion of cost to employees and their dependents. Specifically, the changes increase out-of-pocket expenses and encourage the use of cost-effective generic drugs. This agreement reduces projected costs growth by \$37 million over the next three years, while delivering a comprehensive benefit package that ranks among the very best in the nation for both affordability and effectiveness. The total costs shifted or avoided are equivalent to a \$70 per employee per month premium share, or 18 percent of healthcare costs.

The benefits package reflects a commitment by both labor and management that employees must share costs. Health policy experts and researchers have established that simply shifting costs to employees in the form of a premium share does not solve the problem of escalating health care costs. This plan controls overall costs to the county by tying employee cost share to actual utilization (i.e. co-insurance), encouraging employees and their dependents to effectively manage their use of health-care resources.

SHUTDOWN OF OPERATIONS

In the face of the severe fiscal challenges across all county funds, the 2010 Executive Proposed Budget includes savings assumptions in an effort to preserve direct services. For 2009, savings were achieved through the implementation of a ten-day building and/or operational closure program, resulting in labor furloughs. The 2010 budget is balanced across all funds assuming that a similar level of savings will be achieved in each agency based on the furlough eligible employees as was adopted for 2009, including 2009 County Council amendments. The specific details of the 2010 plan are still under development, and discussions with labor unions and individual agencies are on-going. Specific plans describing how the 2010 savings will be achieved will be transmitted to the County Council in the coming weeks. To the extent that savings, from labor or other expenses, cannot be fully achieved through temporary and short term building and/or operational closures, the plan will describe additional programmatic reductions and the elimination of additional positions.

The operational closure program is assumed to generate \$6.5 million General Fund savings and \$13.7 million of savings are assumed for non-General Fund agencies. Details on the implementation of this effort will be developed in consultation with departments, labor representatives and elected leaders.

ECONOMIC STIMULUS FUNDING

The American Recovery and Investment Act (ARRA) was designed to stimulate the rapidly contracting economy by infusing federal stimulus dollars to create jobs and drive economic recovery. King County has been awarded nearly \$88 million in ARRA funding. Unfortunately, these awards do not offer direct benefit to the county's struggling General Fund. Instead, these funds are directed toward King County's non-General Funds for specific projects in agencies such as the Department of Transportation, the Department of Community and Human Services, and Public Health.



OUT-YEAR FORECASTS

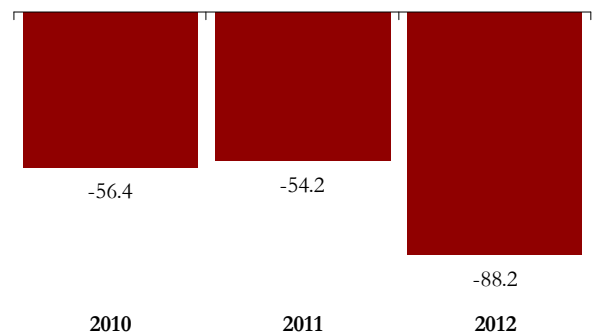
Sales tax revenues are not projected to return to 2008 levels until 2013.

Resources required to sustain services included in the 2010 Executive Proposed Budget exceed resources available for 2011 and beyond by an estimated \$54.2 million in 2011 and \$88.2 million in 2012. This gap is driven by an annual average increase in expenditures of \$52 million dollars and an average annual increase in revenues of \$12 million over these two years, reinforcing the continued impacts of the structural nature of the General Fund deficits. Between 2010 and 2012, revenues are anticipated to grow 2.0 percent annually, while expenditures are anticipated to grow 8.4 percent annually.

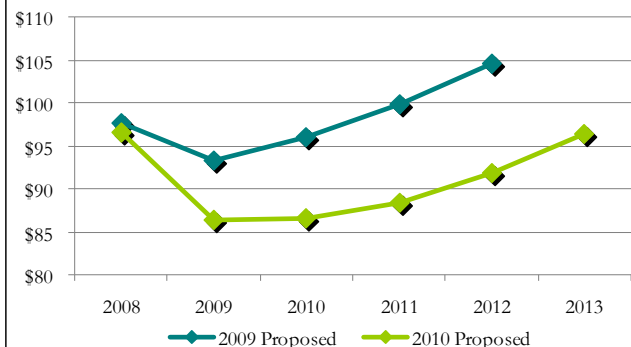
The largest single cost driver for the General Fund is labor, which grows generally at the COLA rate plus an increment for merit, and comprises 54 percent of total General Fund expenditures. The relatively lower rate of growth in revenues is driven in large part by the statewide cap on property tax revenue growth to one percent plus a component for new construction. Property taxes comprise 43 percent of projected General Fund revenue in 2010.

As shown in the graph, local option sales taxes are projected to decline in 2009 and remain flat in 2010. Sales tax revenues are not projected to return to 2008 levels until 2013. Interest yields in 2010 are projected to reach the lowest level in the King County Investment Pool's history.

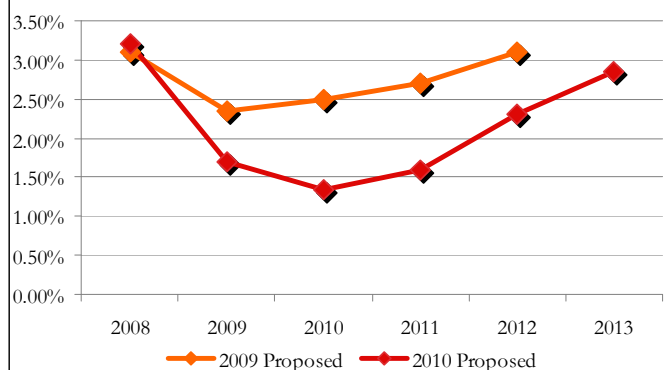
Projected General Fund Deficits



General Fund Sales Tax



Yield on King County Investment Pool





SUSTAINABILITY

King County faces unprecedented challenges in the coming years. Having solved two of the largest deficits in history in 2009 and 2010, the county will not get a reprieve from fiscal constraints any time soon. The following sections describe some of the more significant challenges that are ahead. These issues, on top of the perpetual structural deficit, give cause for exercising great restraint in spending wherever possible.

MIDD

In 2009, the Washington State Legislature authorized counties to use a portion of the 0.1 percent Mental Illness and Developmental Disability (MIDD) sales tax to supplant funding for existing programs. This allowance begins at fifty percent in 2010 and ramps down by ten percent each year, until it is eliminated in 2015.

The 2010 Executive Proposed Budget assumes approximately thirty percent of MIDD revenue will be used in 2010-2012 to support existing eligible General Fund programs, less than the authorized amount in 2010 and 2011. This creates a sustainable situation for only three years, at which point resources available for these programs drop. By 2015, these programs will need to be eliminated, or alternate funding sources will need to be identified.

"This budget reflects a transition not just of executive leadership but a transition to an uncertain future."

-Executive Triplett
September 2009

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|---------------|
| Total MIDD | \$43.2 | \$45.3 | \$47.3 | \$49.8 | \$52.4 | \$55.1 |
| Maximum supplanting under law | 50% | 40% | 30% | 20% | 10% | 0% |
| 2010 Proposed Budget Assumption | 28% | 27% | 30% | 20% | 10% | 0% |
| Revenue available for supplanting | \$12.0 | \$12.2 | \$12.4 | \$10.0 | \$5.2 | \$0.0 |
| Existing GF Programs Transferred to MIDD | \$12.0 | \$12.2 | \$12.4 | \$12.6 | \$12.8 | \$13.0 |
| Deficit: cut or support with other revenue | \$0.0 | \$0.0 | \$0.0 | \$2.7 | \$7.6 | \$13.0 |

SHUTDOWN OF OPERATIONS

In the face of the severe fiscal challenges across all county funds, the 2010 Executive Proposed Budget includes savings assumptions in an effort to preserve direct services. For 2009, savings were achieved through the implementation of a ten-day building and/or operational closure program, resulting in labor furloughs. The specific details of the 2010 plan are still under development, and discussions with labor unions and individual agencies are on-going.

The strategy adopted in 2009 did not produce ongoing savings. If the 2010 strategy that is ultimately adopted is also one-time in nature, then it will not help to offset the 2011 or 2012 deficit. The 2010 Executive Proposed Budget assumes that the strategy adopted for 2010 does not have an outyear impact.

RETIREMENT RATE JUMP

The county contributes to several state retirement plans at rates set by the state legislature. Recent losses on investment holdings have caused a decline in the value of assets set aside by the state for retirement costs. This is driving an increase in projected retirement rate contributions that will be required in order to adequately fund the retirement system over the next 20 years.

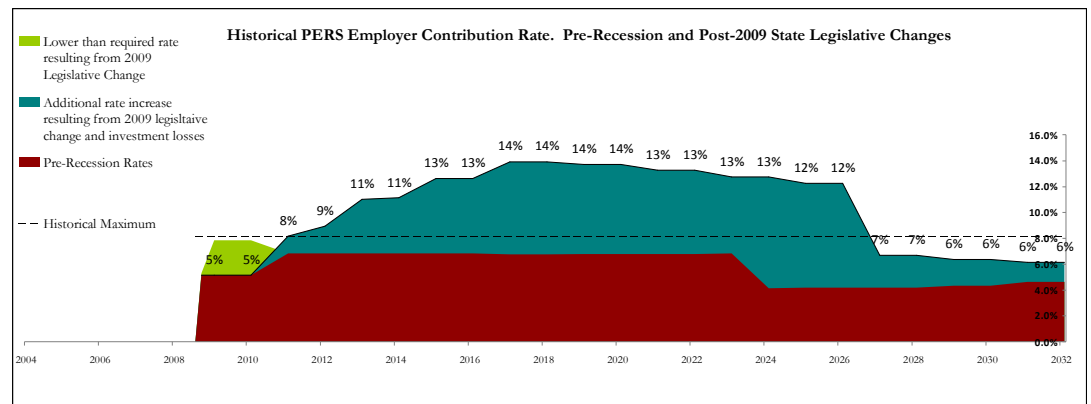
According to a report by the Office of the State Actuary, “Even under an optimistic investment return scenario, biennial employer contributions still nearly triple over the next two biennia. Under a pessimistic scenario, biennial contributions could increase over five and a half times in the next 12 years.” That means that instead of paying 5 percent of employee pay into the state retirement system King County could be paying 15 - 25 percent for every employee in the next twelve years.

As part of the solution to the state’s 2009-2011 budget deficit in excess of \$8 billion, the legislature adopted a new methodology for determining employer retirement contribution rates. Under the revised schedule, rates in the near-term are lower, and rates in later years are significantly higher than previously projected by the Office of the State Actuary. This creates a false savings in 2010 and 2011.

The 2010 Executive Proposed Budget begins to address this through the creation of the Retirement Contribution Reserve. The county cannot afford to implement gimmicks to solve short-term problems while exacerbating outyear deficits. The increases in projected retirement costs beyond what the county would have otherwise experienced are set-aside in 2010 to better position the county to be able to meet these obligations in 2011-2013 and the longer term.

“Even under an optimistic investment return scenario, biennial employer contributions still nearly triple over the next two biennia. Under a pessimistic scenario, biennial contributions could increase over five and a half times in the next 12 years.”

-Washington State
Office of the State
Actuary
September 2009
Report.



While the projected increased costs are captured in financial plan outyear expenditure estimates, the problem gets worse beyond 2013 as shown in the graph. The red area portrays PERS rates that were anticipated pre-recession. The blue shaded area represents rate increases above and beyond those assumed pre-recession due to the 2009 legislative change and investment losses. The light green area represents the impact of the legislative changes in comparison with recent rates recommended by the Office of the State Actuary. As you can see in the graph, coming rate and cost increases (the blue area) dwarf the savings achieved in 2010 and 2011 (the light green area). The county needs to begin preparing for these coming costs now.

OTHER POST EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board Statement 45 (GASB-45) requires state and local governments to report liabilities related to other post-employment benefits (OPEB). King County has OPEB liabilities related to health-care costs for its early retirement program and employees in the Law Enforcement Officers and Fire Fighters I (LEOFF I) retirement program. King County, like most other governmental entities, has traditionally operated on a pay-as-you-go basis. This method does not capture future costs that will be incurred after the employee retires. The GASB rule directs governments to amortize existing liabilities as of 2007 over 30 years and to report net OPEB obligations annually.

The county has OPEB liabilities associated with each current employee, which grows over time until the employee retires. Upon retirement, the county begins to pay actual OPEB costs, which may take place over several years and lowers the outstanding actuarial liability. For example, LEOFF-I retirees are eligible for county healthcare coverage for life. Since no additional employees are added to this pool, this is a defined population and a liability that will eventually be paid down over time. Liabilities related to early retirement would continue so long as the county offers this program.

At the end of 2008, the county had an OPEB unfunded actuarial accrued liability of \$145.4 million. Of this, over \$67 million (46%) is related to LEOFF-I retiree medical benefits that will be paid over time (all General Fund). Under GASB-45 rules, in 2007 and 2008 the annual required contributions were \$11.8 million each year. The county, continuing to operate on a pay-as-you-go basis, paid only \$5.1 million in 2007 and \$3.2 million in 2008. As of the beginning of 2009, the county should have \$15.1 million set aside to pay for future OPEB costs (approximately \$10 million of this is General Fund). This amount will increase each year over the next several years. A reserve of \$4 million growing over time has been established in 2011 for this purpose.

“If passed, I-1033 will do lasting harm to the ability of state and local governments to invest in essential public priorities.”

-Washington State
Budget and Policy
Center Policy Brief
August 2009

INITIATIVE-1033

Initiative 1033 will be on the November 2009 ballot statewide. If adopted, the initiative would limit the ability of cities, counties, and the state to generate sufficient revenue to support programs over time. Revenue growth each year would be limited to an amount equal to the previous year, plus inflation for the prior year and population growth. For 2010, this limit could be below 1%, driven by abnormally low inflation in 2009 resulting from the recession. This revenue cap would apply to existing General Fund revenues, or any other revenues that are transferred into or out of the General Fund, now and in the future.

The impact of this particular initiative is difficult to evaluate. It will severely limit flexibility to use General Fund resources for programs currently funded elsewhere, or to move existing General Fund programs to other funds. Some questions remain about how the limit would apply to one-time revenue such as a bond sale, a property sale, grants or contract revenue. This is an unknown that may or may not impact the county, depending on the will of the electorate in November 2009.

“Even in tough economic times we need to continue to do everything physically possible to protect the people and property of the valley after the warnings we have received from the Army Corps of Engineers. It is the right thing to do even if the worst case scenarios don’t happen. Too much is at stake.”

-Executive Triplett
September 2009

POTENTIAL GREEN RIVER FLOODING

In the midst of the most severe financial crisis in King County’s history, the county is also simultaneously facing the very real potential of catastrophic flooding in the Green River Valley this fall and winter. This situation is the result of damage to the federally-operated Howard Hanson Dam. The dam is compromised as a result of damage sustained during the winter storms of 2008-2009. In order to prevent further damage to the dam while a long-term solution is developed, the United States Army Corp of Engineers (USACE) will not operate the dam at full capacity this fall and winter. This will mean increased water flows into the Green River during storm events. The levee system along the Green River was designed to work in conjunction with a fully-operating Howard Hanson Dam and may not be able to withstand the water flows that could now result.

The Green River Valley is home to several critical King County facilities, including the Maleng Regional Justice Center, Aukeen District Court, the King County Animal Shelter, the South Wastewater Treatment Plant, the Earlington Building (which houses Elections) and a number of other facilities in the area. In order to ensure continuity of business and to protect lives and King County assets, King County is undertaking the unprecedented task of seeking alternative operational locations and plans in the event of flooding. King County is also working to upgrade the levee system in anticipation of the flood season. All of this requires a tremendous amount of money - money that would not need to be expended were it not for the faulty federally operated dam. King County is proactively managing the situation and is seeking assistance from the federal government in offsetting these costs. Funding for the costs are not included in the 2010 Executive Proposed Budget, but rather through separate supplemental appropriation requests.

DEBT CAP

By internal policy, King County limits its maximum annual debt service from the General Fund to an amount no greater than 5 percent of adjusted General Fund revenues. This, in conjunction with adherence to other county financial policies, ensures that King County will always be able to meet its debt repayment obligations, despite fluctuations in revenues or unexpected expenditures.

In 2010, the 5 percent policy limit equates to a maximum amount of \$25.8 million. Planned 2010 debt service is well below this threshold at \$22.8 million. However, debt service in 2011 and beyond may exceed the 5 percent policy limit if measures are not taken to reduce the General Fund’s reliance on debt financing.

Current planning assumes that debt service of \$3.4 million related to planning and mitigation efforts for a potential Green River flood will begin in 2011. This amount may be reduced through potential federal reimbursement or use of the Green River Flood Planning and Mitigation Reserve to lower outstanding debt. Under current assumptions, the combination of this and other planned debt issuances would cause the General Fund’s debt service amount to exceed the policy limit by \$0.8 million in 2011 and \$1.2 million in 2012. Debt service for the Accountable Business Transformation (ABT) project is anticipated to begin in 2013, adding additional pressure. While altering the duration of some debt may allow for annual payments to remain within the policy cap, this will also limit the ability of the county to issue other debt in the future.

FINANCIAL POLICIES

King County has established and modified a variety of financial policies over the last thirty years. General Fund related policies have generally been established by motion. King County and other counties around the state are struggling to maintain service levels following severe restrictions imposed on property tax revenue in 2001 and the worst recession in 70 years. Included with the 2010 Executive Proposed Budget are a series of suggested financial policies designed to ensure that the county establishes and memorializes policies that ensure prudent and sound financial management in the years to come. King County – as evidenced by its AAA credit rating – has established a reputation for its conservative and proactive management of its finances through good times and bad. The policies transmitted to the county council with the 2010 Executive Proposed Budget will, if adopted by the council, reinforce this commitment and codify these policies in a single location so as to increase transparency. These policies highlight the importance of considering outyear fiscal implications of policy decisions. They formalize the following practices:

- Sets undesignated ending fund balance targets of 6 – 8 percent of the General Fund's adjusted revenues.
- Sets a minimum reserve threshold of \$15 million or 2.5 percent of adjusted General Fund revenues for the Rainy Day Reserve Fund and establishing a mechanism for replenishment.
- Limits planned debt service to 5 percent of adjusted General Fund revenue.
- Codifies the practice of adopting a 3 year financial plan.
- Provides a mechanism for the Council to request the Office of Management & Budget (OMB) to analyze budget ordinances for outyear General Fund impacts.

LONG TERM OPTIONS

As the General Fund structural deficits persist, resulting in projected a \$54.2 million deficit for 2011 and a \$88.2 million deficit for 2012, King County's ability to sustain basic services is severely undermined. Absent a new funding structure for counties, King County will be left with no choice but to seek additional programmatic reductions to functions such as criminal justice, public health, and basic governmental services such as elections in order to balance the budget.

Potential long-term funding options include another attempt to obtain the authority from the Washington State Legislature to impose an **unincorporated utility tax** to offset the cost to the county of providing local services. Cities in the State of Washington have this authority, while counties with similar responsibilities do not. An unincorporated utility tax would provide the county with approximately \$6 million per percentage of utility tax collected.

In addition, King County has the authority to seek voter approval to impose up to three-tenths of one percent **public safety sales tax** and/or a **property tax** increase. Revenues from these sources could be used to sustain important criminal justice and health and human services functions and relive pressure on the General Fund.

“Excellent management is evidenced by sound fund balance levels, adherence to strong council-adopted financial management policies, and a low debt burden. The county’s financial operations benefit from strong management policies and practices.”

-Fitch, affirming King County's AAA Bond Rating
April 2009



OTHER COUNTY FUNDS

*“King County is in a situation where **virtually every county fund** is in a state of financial distress.”*

Overview of King
County Distressed
Funds
September 2009

The county General Fund is not the only fund experiencing significant financial hardship. *In fact, virtually every county fund is in distress.* The sources of this distress are often similar to the variables challenging the General Fund: structural imbalances in the ability of revenues to grow at a sufficient pace to maintain base services and/or weakening revenues as a result of the economic downturn. A sample of some of the funds in distress includes:

- Department of Development and Environmental Services (DDES)
- Transit
- Road Services
- Solid Waste
- Parks
- Real Estate Excise Tax (REET)
- Wastewater
- Public Health
- Emergency Medical Services (EMS)

King County is providing the same proactive management of these funds as it is for the General Fund.

DEPARTMENT OF DEVELOPMENT AND ENVIRONMENTAL SERVICES (DDES)

DDES is funded through revenues from permit fees. The current economic conditions, particularly the decline in development and construction activity, have dramatically lowered permit volumes and fee revenues. Total revenues for DDES are down \$8.2 million, over 30 percent, in 2009, as compared to 2009 Adopted Budget projections. In response, DDES has eliminated positions since 2008, such that the 2010 Executive Proposed Budget includes 50 fewer FTEs as compared to the 2009 Adopted Budget. For remaining staff, DDES is considering a 10 percent organization-wide reduction in operating hours. DDES staff already work four ten-hour days, in order to allow DDES to assume operating savings from closing the Blackriver Building on Fridays. The further reduction would reduce the hours Monday through Thursday from ten to nine hours and result in a 10 percent reduction in pay for DDES employees.

In addition, DDES is seeking a nearly 40 percent increase in its permit fees from the current level of \$140 per hour to \$195 per hour for 2010. DDES is also planning to eliminate operating contingency dollars and reduce reserves in 2010, 2011 and 2012. Assuming these many adjustments, ending fund balances in 2010 and 2011 will decrease to levels that are less-than-half of 2008 actual levels. Additionally, fee stabilization reserves are eliminated for 2010 and beyond.

TRANSIT

Transit is funded primarily through sales tax revenues, which generated approximately 65% of total Transit revenues in 2008. Unrest in the economy has led to a significant deterioration in Transit sales tax collections, which are projected to decline in 2010 by 12 percent from the 2008 levels. In 2009, Transit sales tax revenues are expected to be approximately \$57 million less than in 2008, and over the 2010 / 2011 biennium Transit will lose an estimated additional \$92 million in sales tax revenue as compared to 2008. In fact, Transit sales tax revenues are not expected to return to their 2008 levels until at least 2013.

Meanwhile, costs of delivering Transit services continue increase. As a result, Transit faces a \$213 million deficit for 2010 and 2011, or a \$500 million deficit over the next four years, severely jeopardizing the integrity of King County's award-winning transit system. To address this deficit and preserve the fundamentals of the transit system, the 2010 Executive Proposed Budget is based on a Nine Point Plan, as follows:

1. **Defer bus services expansion:** With the exception of select RapidRide routes and approved Service Partnerships, bus service associated with Transit Now is delayed, saving \$36 million over four years.
2. **Cut the capital program:** With the limited service expansion over the next four years, Transit will purchase fewer buses, savings \$83 million over four years.
3. **Non-service-related reductions:** Transit will cut by roughly 10 percent non-service related functions, including reductions in new transit police; printed materials; customer service; park and ride landscaping; and the frequency of bus cleaning, saving \$27 million over four years.
4. **Increase the property tax by 5.5 cents** *(with corresponding reductions in property taxes for the Ferry District and the Automated Fingerprint Identification System to neutralize the impact on King County taxpayers):* The 5.5 cent property tax increase will support expanded bus service across State Route 520, as required by state law, and support RapidRide service expansion. This tax will generate \$58 million over four years.
5. **Utilize operating reserves to stabilize service levels:** Transit's 30-day operating reserve of \$50 million will be reduced by roughly half, generating \$40 million over four years.
6. **Increase fares by 25 cents in 2011:** This increase is in addition to the already planned fare increase for February 2010 and will generate \$35 million in additional revenue over four years.
7. **Use the fleet replacement reserve:** Transit will utilize its one-time excess fleet replacement reserves for operating expenses, which will provide \$100 million on a one-time basis over four years.
8. **Implementation of efficiencies from the transit performance audit:** Transit will work to implement efficiencies identified in the recently completed Transit Performance Audit. The precise level of savings generated by these efficiencies will not be known until Transit has time to work through implementation details.
9. **Reducing bus service:** Transit will shrink equitably across the system annual bus service hours by 310,000 hours, or roughly 9 percent of the overall bus system over the next two years, generating \$90 million in savings over four years.

"These are extraordinary times for our world class transit system, but I believe this plan takes a balanced and comprehensive approach to addressing this crisis with fiscally sound, sustainable financial practices that preserve as much service as possible over the near and long-term."

- Executive Triplett
August 2009

FERRY DISTRICT & AUTOMATED FINGERPRINTING IDENTIFICATION SYSTEM (AFIS)

The Ferry District and AFIS are unique in that they are not distressed funds. However, they do play a critical role in the strategy for balancing the 2010 Executive Proposed Budget, particularly as it relates to the property tax increase sought for Transit in 2010. The Ferry District and AFIS are both supported by property tax assessments. Recognizing that the weak economy is straining the personal finances of King County residents and the financial position of many county funds, the Executive has examined all county-controlled property tax assessments and is proposing to strategically realign those assessments to match service delivery priorities. In order to neutralize the impact of the Transit 5.5 cent property tax increase on homeowners, the proposed budget lowers the Ferry District property tax levy by 4.5 cents and the AFIS levy by 1 cent. With its remaining property tax revenues, the Marine Division will continue to operate the two existing passenger-only ferry routes – the West Seattle-Downtown Seattle and Vashon-Downtown Seattle routes - but will no longer pursue implementation of the expanded demonstration ferry routes. Meanwhile AFIS has sufficient fund balance reserves to allow it to sustain its existing program, including implementation of New Generation AFIS, through the duration of the levy in 2012.

ROADS

The Road fund derives a majority of its revenues from two key sources, the property tax, which comprises approximately 65 percent of its revenues, and the gas tax which accounts for approximately 12 percent of its revenues. Like the General Fund, the Roads fund property tax is limited to one percent growth each year plus new construction. Because of the recent economic turmoil, property tax revenues from new construction is depressed. In addition, the volatility in gas prices over the past two years has resulted in lower than expected revenues from the gas tax. Meanwhile, severe winter storms over the past few years has left a devastating mark on the county's road system, requiring increased emergency response and repair work. Roads also faces significant expenditure demands to maintain the county's aging bridge and road infrastructure. Finally, the transfer from Roads to the General Fund in support of traffic enforcement activities has increased from \$389,205 in 2001 to \$5.7 million in 2009.

For a number of years, Roads has relied on one-time property sales to sustain its program. Unfortunately, these sales have not materialized at the planned levels. As a result of all of these factors, the Road fund faces a \$19.6 million deficit. The 2010/2011 Executive Proposed Biennial Budget for Roads Services closes this deficit primarily through reductions in the capital program. Over the long-term, preservation of county roadway infrastructure is the main priority for Road Services. Work on Phase II of the Road Services Division Operational Master Plan (ROMP) will guide how Road Services achieves this objective in the face of constrained revenues.

SOLID WASTE

The Solid Waste fund is supported primarily through solid waste disposal fees, which are typically set every three years. In 2008, the Solid Waste Division increased the rate from \$82.50/ton to \$95/ton with the assumption of tonnage exceeding one million tons per year. Starting in late 2007 – after the 2008 rate increase was approved – regional solid waste tonnage began to decline with the deteriorating economy. With reduced consumer spending and business activity, less tonnage is being transferred to the county's Cedar Hills landfill, resulting in \$56 million less revenue over the life of the three-year rate (\$24 million in 2010 alone) as compared to original projections.

The 2010 Executive Proposed Budget is based on projected tonnage equal to 860,000 tons, a 127,000 ton drop from the projected tonnage in the 2009 Adopted Budget, or \$12.1 million in less revenue than the 2009 Adopted Budget assumptions. In response to the reduced tonnage, Solid Waste has reduced part-time staff hours and low-priority equipment upgrades beginning in 2009. For 2010, the division will also take direct service and administrative reductions. The division will eliminate sixteen positions directly related to transfer station and landfill operation, many of which are vacant, to match current operational needs. Solid Waste is also in the process of reviewing tonnage and transaction statistics at the county's multiple transfer stations and may begin adjusting transfer station hours based on reduced workload in 2010.

PARKS

King County regional parks and trails are funded through a property tax levy that grows with inflation. Due to extraordinary low rates of inflation, levy operating revenue projections are an estimated \$4 million lower than expected over the life of the levy than what was projected in the 2009 Adopted Budget. As such, the division will likely not be able to provide full pre-2002 maintenance to levy-funded regional/rural parks in 2010 and over the remainder of the levy. This runs counter to promises made to King County voters when they approved the Parks levy in 2007. The re-designation of two local parks to regional status in 2009, Steve Cox Memorial and Juanita Woodlands, places additional burden onto the levy funds.

Further, as a result of the financial challenges in the General Fund, funding for the thirty-nine parks located in the Urban Growth Area (UGA) will be eliminated in the 2010 Executive Proposed Budget, as described on page 13. In response to these changes, the 2010 Executive Proposed Budget assumes the mothballing of 37 UGA parks, as well as the elimination of financial support to the King County Fair, the mothballing of the two remaining outdoor pools (Vashon and Cottage Lake), and reducing costs through efficiencies at the King County Aquatic Center. Parks will continue its entrepreneurial efforts to maximize revenues.

The 2010 Executive Proposed Budget includes additional expenditure authority at Marymoor Park to facilitate continued revenue generation, including the hosting of Cirque du Soleil and providing parking facilities for the U.S. Golf Association Senior Open at Sahalee.

REAL ESTATE EXCISE TAX (REET)

King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the county. Revenue derived from the county's portion of REET is devoted to supporting the Parks Division capital program.

Reflecting unprecedented low interest rates and a high degree of real estate speculation, real estate sales were unsustainably high between 2005 and 2007. Recent collections have dramatically fallen, even beyond the drops that were forecast, as the housing market and credit facilities collapsed. REET revenues reached record levels of \$22 million in 2006. King County only expects to collect \$6.3 million in REET revenues for 2009 and \$6.8 million for 2010. This has resulted in a number of project cancellations in the Parks capital program and a reduced number of new projects.

WASTEWATER TREATMENT

The Wastewater Treatment Division is funded through customer charges, including charges to residential and commercial customers and capacity charges on new sewer connections. The adopted monthly sewer rate for 2010 is \$31.90, the same rate levied in 2009. The capacity charge will increase from \$47.64 in 2009 to \$49.07 in 2010. Wastewater rates are adopted every two years. The current two-year rate was adopted in mid-2008.

Like many other county funds, Wastewater has struggled with the impacts of the recent economic instability. As the local economy began to deteriorate, the number of existing residential customer equivalents (RCEs) and new customers fell from the projected assumptions when the two-year wastewater rates was adopted in 2008. For 2010, the division estimates that both the number of existing RCEs and the number of new customers will be lower than in 2009. These declines will result in a decrease in anticipated revenues when compared to prior estimates and less revenue for 2010 than 2009. In addition, Wastewater is also facing expenditure challenges resulting from increased debt service costs associated with completion of the Brightwater treatment infrastructure.

Wastewater is taking a number of steps in 2010 to manage through these challenges, including transferring \$11.6 million from its rate stabilization reserve and seeking operational efficiencies through its Productivity Initiative and its Maintenance Best Practices program. In spite of these efforts, Wastewater's current financial plan projects the need for monthly sewer rate increases of 23 percent over the next two years. As Wastewater prepares for the next two-year rate process, it will identify ways to mitigate the need for rate increases of this magnitude.

PUBLIC HEALTH

Public Health receives funding from the county's General Fund and numerous other non-General Fund sources, including the state, the federal government, and other non-governmental granting organizations. General Fund support to Public Health is particularly crucial because the dollars are flexible and can be used to leverage outside revenues. See page 15 for a discussion of Public Health's response to General Fund reductions.

Beyond General Fund support, state budget challenges have resulted in loss of funding for a variety of services including: HIV/AIDS prevention; tobacco prevention; the environmental health program; family planning programs; laboratory costs associated with screening for sexually transmitted diseases; and colorectal cancer screening.

Meanwhile, Public Health is benefiting from increases in federal funding under the American Recovery and Reinvestment Act (ARRA). The 2010 Executive Proposed Budget reflects ARRA funding from Ryan White for HIV/AIDS treatment programs. Although not directly reflected in the 2010 Executive Proposed Budget, Public Health also expects to receive increases in federal funding – unrelated to ARRA funds – to respond to the anticipated outbreak of the H1N1 influenza this fall and winter. At the same time, Public Health continues to struggle with federal reimbursement rates that do not keep pace with the rate of inflation. As a result, Public Health must continually find creative ways to spread federal reimbursement dollars to meet existing and growing demands for services.

EMERGENCY MEDICAL SERVICES (EMS)

Emergency Medical Services (EMS) is funded by a property tax levy approved by King County in 2007. As a result of declining property assessed valuations in King County, EMS levy revenue forecasts are lower in 2010 than anticipated when the levy was passed in 2007. The EMS levy is subject to a rate cap of 30 cents per \$1,000 of assessed value. As property values decline, the property tax rate needed to collect the allowable revenues necessarily increases. Previous forecasts indicated that EMS could sustain a 7 percent decline in assessed valuation (AV) in 2010 and still generate sufficient revenues to maintain its program. Unfortunately, a 13.5 percent decline in AV is assumed in the 2010 Executive Proposed Budget and slow growth in 2011, resulting in a \$30 million decline in total revenues (including Seattle) for EMS over the remaining life of the levy as compared to the 2009 Adopted Budget forecast. This will create a significant gap in the EMS financial plan. Due to the planning foresight of regional EMS partners, the County Executive and the county council, however, there is an effective method for mitigating this gap using existing EMS levy fund reserves and contingencies rather than taking reductions in direct services and programs.

The EMS fund is balanced by reducing the millage reduction reserve. The millage reduction reserve was created as a way to give excess tax collections back to the citizens of King County. The reduction of assessed value combined with the rate cap has effectively already lowered the EMS levy for citizens. In addition, any change in the levy rate will have a direct impact on the City of Seattle's EMS program. The EMS financial plan is included with the proposed budget and details both the change in revenues and reserves.